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GUATEMALA FOR USAID AND RO-AP

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E.O. 11652: N/A

TAGS:

SUBJECT: LOAN TERMS POLICY FOR FY 1977

1. AS MISSION MAY KNOW, TERMS TO BE APPLIED TO DEVELOPMENT LOAN AUTHORIZATIONS IN FY 1977 WILL IN PART BE GOVERNED BY THE RECENTLY ENACTED PROVISION OF THE FOREIGN ASSISTANCE APPROPRIATIONS ACT OF FY 1977 WHICH READS:

QUOTE: LOAN ALLOCATION, DEVELOPMENT ASSISTANCE: OF THE NEW OBLIGATIONAL AUTHORITY APPROPRIATED UNDER THIS ACT TO CARRY OUT THE PROVISIONS OF SECTIONS 103-106, NOT LESS THAN DOLS 300,000,000 SHALL BE AVAILABLE FOR LOANS FOR FY 1977: PROVIDED THAT OF THE AMOUNT MADE AVAILABLE FOR LOANS, NOT TO EXCEED DOLS 210,000,000 OF SUCH AMOUNT SHALL BE AVAILABLE FOR LOANS REPAYABLE WITHIN FORTY YEARS FOLLOWING THE DATE ON WHICH FUNDS WERE INITIALLY MADE AVAILABLE UNDER THE LOAN: PROVIDED FURTHER, THAT NOT TO EXCEED DOLS 60,000,000 OF SUCH AMOUNT SHALL BE AVAILABLE FOR LOANS REPAYABLE WITHIN THIRTY YEARS FOLLOWING SUCH DATE: PROVIDED FURTHER, THAT NOT TO EXCEED DOLS 30,000,000 OF SUCH AMOUNT SHALL BE AVAILABLE FOR LOANS REPAYABLE WITHIN TWENTY YEARS FOLLOWING SUCH DATE. UNQUOTE.

MISSIONS SHOULD NOTE THAT THE FY 1977 LEGISLATION REFERS ONLY TO MATURITIES AND IS SILENT ON GRACE PERIODS AND INTEREST RATES. A TEN YEAR GRACE PERIOD ON 30 YEAR LOANS SEEMS MOST PROBABLE. ON 20 YEAR LOANS, BOTH 7 AND 10 YEAR GRACE PERIODS ARE UNDER CONSIDERATION. THE LA BUREAU IS INCLINED TO FAVOR A 10 YEAR GRACE PERIOD ON ALL MATURITIES. WE EXPECT THAT THE INTEREST RATE FOR FY 1977 LOANS WILL CONTINUE TO BE 2 PERCENT IN THE GRACE PERIOD AND 3 PERCENT THEREAFTER. THE LEGISLATION AND THE POLICY WE ARE DEVELOPING DEALS AT THIS TIME ONLY WITH FY 1977.

2. THE LA BUREAU ANTICIPATES THAT IN ORDER TO REACH THE LIMITED OFFICIAL USE

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DOLS 30 MILLION AND DOLS 60 MILLION TARGETS, MANY FY 1977 LA LOAN PROJECTS WILL HAVE TO BE DEVELOPED AND NEGOTIATED WITH TWENTY AND THIRTY YEAR MATURITIES. (MISSIONS SHOULD KEEP IN MIND THAT THIS CHANGE IS LEGISLATIVELY MANDATED THAT IT DOES NOT SINGLE OUT PARTICULAR COUNTRIES). PPC HAS SUGGESTED A SYSTEM WHICH ALLOCATES THESE SHORTER MATURITY LOANS PRIMARILY IN ACCORDANCE WITH A COUNTRIES RELATIVE

PER CAPITA GNP (I.E., HIGHER PER CAPITA GNP COUNTRIES RECEIVING SHORTER MATURITIES AND LOWER PER CAPITA GNP COUNTRIES RECEIVING FULL CONCESSIONARY TERMS). PPC'S SYSTEM IS LIKELY TO PLACE LOANS TO CHILE, JAMAICA, PANAMA AND PERU IN THE 20 YEAR MATURITY GROUP AND LOANS TO EL SALVADOR, GUATEMALA, NICARAGUA AND PARAGUAY IN THE 30 YEAR MATURITY GROUP. BOLIVIA, CARIBBEAN REGIONAL, HAITI AND HONDURAS WOULD REMAIN AT 40 YEARS. COSTA RICA, DOMINICAN REPUBLIC, GUYANA AND ROCAP ARE UNAFFECTED SINCE THEY DO NOT HAVE FY 1977 LOAN PROGRAMS.

3. HOWEVER, THE LA BUREAU IS DISCUSSING WITH PPC THE POSSIBILITY OF INTRODUCING INTO THIS SYSTEM PROJECT SPECIFIC CRITERIA SO THAT CERTAIN PROJECTS CAN BE ASSIGNED 20, 30 OR 40 YEAR MATURITIES WITHOUT REGARD TO THE BORROWING COUNTRY'S PER CAPITA GNP. THE BUREAU'S OBJECTIVE IS TO DEVELOP A SYSTEM THAT MITIGATES THE ARBITRARINESS OF THE PER CAPITA GNP MEASURE, THAT WILL NOT ENDANGER THE FEASIBILITY OF SPECIFIC PROJECTS, AND THAT WILL PERMIT A.I.D./W AND THE MISSIONS TO ASSIGN FIRM MATURITIES TO PROJECTS NOW BEING DEVELOPED AND NEGOTIATED. MISSIONS SHOULD NOTE HOWEVER, THAT A FINAL AGENCY-WIDE POLICY IS STILL BEING DISCUSSED AND THE BUREAU'S POSITION MAY NOT PREVAIL.

3. BASED ON THE ABOVE, THE LA BUREAU HAS DEVELOPED SOME PRELIMINARY PROJECT SPECIFIC CRITERIA FOR SELECTING THOSE LOANS THAT MAY BE ABLE TO ASSUME SHORTER MATURITIES WITHOUT ENDANGERING THE POSSIBILITY OF AUTHORIZING THE PROJECT IN FY 1977. IN GENERAL, WE BELIEVE THAT ICI AND OTHER REVENUE GENERATING PROJECTS SHOULD BE ABLE TO LIMITED OFFICIAL USE

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SUSTAIN THE SHORTEST MATURITIES AND THAT IN MOST CASES, THESE PROJECTS SHOULD BE ALLOCATED THE 20 YEAR REPAYMENT TERMS. LIKEWISE, ALL PROJECTS IN WHICH PRELIMINARY COST/BENEFIT ANALYSES INDICATE THAT THEY CAN SUPPORT SHORTER LOAN TERMS WILL ALSO BE CONSIDERED IN THE 20 OR 30 YEAR CATEGORY. PROJECTS THAT ARE LEAST ABLE TO SUSTAIN SHORTER MATURITIES ARE THOSE WHOSE RETURNS ARE LARGELY SOCIAL, WITH PAYOFFS DEFERRED OVER LONG PERIODS OF TIME, OR THOSE IN WHICH IT IS DIFFICULT TO QUANTIFY SPECIFIC RETURNS. THESE LATTER PROJECTS WOULD GENERALLY INCLUDE THOSE IN THE SOCIAL SECTORS OF EDUCATION, HEALTH AND NUTRITION OR PROJECTS THAT INVOLVE EXTENSIVE INSTITUTION-BUILDING ACTIVITIES OR EXPERIMENTAL APPROACHES OT DEVELOPMENT PROBLEMS. WHILE SOME OF THESE LATTER PROJECTS MAY HAVE TO BE FINANCED WITH 30 YEAR LOANS, WE

WOULD HOPE THAT TWENTY YEAR LOANS COULD BE CONCENTRATED
ON DIRECT REVENUE GENERATING PROJECTS.

4. TAKING INTO CONSIDERATION BOTH PER CAPITA GNP CRITERIA
AND THE PROJECT SPECIFIC CRITERIA DESCRIBED ABOVE, OUR
PRELIMINARY ANALYSIS INDICATES THAT THE FOLLOWING
FY 1977 LOAN PROJECTS COULD SUSTAIN SHORTER MATURITY
TERMS:

TWENTY-YEAR MATURITY PROJECTS		DOLLARS
CHILE	ON FARM IRRIGATION	7.0 MILLION
GUATEMALA	SMALL FARMER MARKETING	3.8 MILLION
CARIBBEAN REGIONAL	AGRIBUSINESS DEVELOPMENT	5.5 MILLION
HAITI	DEVELOPMENT FINANCE CORP.	3.0 MILLION
PARAGUAY	MARKET TOWN DEVELOP.	5.0 MILLION
--	(FY 1977 SHELF-LOAN)	

THIRTY-YEAR MATURITY PROJECTS

JAMAICA	RURAL EDUCATION SECTOR	2.0 MILLION
--	AMENDMENT	
NICARAGUA	RURAL MUNICIPAL DEVELOP.	5.0 MILLION
NICARAGUA	RURAL EDUCATION DEVELOP.	7.0 MILLION
GUATEMALA	EARTHQUAKE HOUSING AND	14.5 MILLION
--	RECONSTRUCTION	

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PANAMA	INTEGRATED RURAL DEVELOP.	10.0 MILLION
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THIRTY-YEAR MATURITY PROJECTS (CON'T) DOLLARS

CHILE	FARM MANAGEMENT TRAINING	2.0 MIL
CHILE	INTERMEDIATE FARM TECHNOLOGY	2.0 MIL
EL SALVADOR	FUNDAMENTAL EDUCATION AND	3.0 MIL
	SKILLS TRAINING	
EL SALVADOR	SMALL FARMER PRODUCTION	10.0 MIL
PERU	EDUCATION SERVICE CENTER	10.0
PARAGUAY	SMALL FARMER ACCESS ROADS	4.4 MIL

ALL MISSIONS SHOULD BE PREPARED TO JUSTIFY IN THEIR
PROJECT PAPERS WHY FULL CONCESSIONARY TERMS ARE NECESSARY
FOR PARTICULAR LOAN PROJECTS NOT INCLUDED ABOVE.

5. THE BUREAU WOULD APPRECIATE EARLY MISSION CONFIRMATION
OF THE ALLOCATIONS DESCRIBED ABOVE IN (4) SO THAT WE CAN
PROVIDE PPC WITH A FINAL LIST OF THOSE LA LOAN PROJECTS
THAT WILL BE DEVELOPED AND NEGOTIATED WITH SHORTER
MATURITIES. WE WOULD ALSO APPRECIATE MISSION REACTIONS
TO THE PROPOSED PPC AND LA BUREAU ALLOCATION SYSTEMS.

PLEASE INCLUDE YOUR THINKING ON WHETHER YOU CONSIDER THE PROJECT DISTINCTIONS USEFUL AND WHETHER YOU ANTICIPATE DIFFICULTIES IN DEVELOPING AND NEGOTIATING ANY OF THE ABOVE LOANS UNDER THE DIFFERENTIATION WE PROPOSE AND UNDER THE CONDITIONS IMPOSED BY THE FY 1977 LEGISLATION. ALSO PARTICULARLY IMPORTANT THAT YOU IDENTIFY ANY OF THE LISTED PROJECTS WHICH FOR ANY REASON CANNOT NOW BE SCHEDULED WITH SOME CERTAINTY FOR FY 1977 AUTHORIZATION. IN ADDITION, FOR THOSE COUNTRIES IN WHICH LOANS WOULD BE PLANNED AT DIFFERENT MATURITIES (CHILE, GUATEMALA, NICARAGUA, PARAGUAY), WE ASK WHETHER YOU EXPECT DIFFICULTY EXPLAINING CRITERIA FOR DIFFERENTIATION TO THE HOST GOVERNMENTS AND WHETHER, IF YOU HAD CHOICE, YOU WOULD PREFER TO NEGOTIATE ALL YOUR LOANS ON SAME HARDER TERMS.

6. MISSION RESPONSE BY DECEMBER 13 REQUESTED. BUREAU WORKING UNDER SHORT DEADLINE AS IT SEEKS CONSTRUCTIVE CHANGE IN POLICY HERETOFORE GOVERNED ALMOST SOLELY BY LIMITED OFFICIAL USE

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PER CAPITA COUNTRY GNP CRITERIA. PLEASE DO NOT DISCUSS

POLICY ALTERNATIVES WITH HOST GOVERNMENTS. DECONTROL DECEMBER 30, 1977. KISSINGER

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